

Internal Revenue Service
Director, Exempt Organizations

Department of the Treasury
P.O. Box 2508 - EP/EO
Cincinnati, OH 45201

Date: [REDACTED]

Employer Identification
Number: [REDACTED]

Person to Contact: [REDACTED]

Contact Telephone Numbers:

Phone: [REDACTED]

FAX: [REDACTED]

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure I.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code. However, we have concluded that you do not qualify under another subsection.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a Trust, or Form 1120 if you are a corporation or an unincorporated association.

You have attempted to agree to our proposed denial by having your power of attorney sign and return Form 6018 on [REDACTED]. However, according to Service practice requirements, an unenrolled return preparer cannot legally bind an organization by signing such a document.

Therefore, if you are in agreement with our proposed denial, please have an officer of your organization sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892,

[REDACTED]

"Exempt Organizations Appeal Procedures for Unagreed Issues."
The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers.

You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely,

[REDACTED]
Director, Exempt Organizations
Rulings and Agreements

Enclosures:
Enclosure I
Form 6018
Pub 892

ENCLOSURE I

ISSUE

Is the organization, which is primarily organized for the purpose of exchanging information on business prospects and is composed of members who have no common business interest other than a desire to increase their individual sales, exempt under Section 501(c) (6) of the Code?

FACTS

You were incorporated on [REDACTED] under the Non-Profit Mutual Benefit Corporation Law of the State of [REDACTED]

ARTICLE II of your Articles of Incorporation states that the specific purposes of your corporation are to:

- 1) Encourage business and professional development within the community as a whole.
- 2) Create and encourage cooperative trade and business expansion.
- 3) Institute and maintain a method of collecting, recording, and exchanging business information.
- 4) Develop and carry on such activities as shall be found best to promote the welfare of the business and professional community, and affect the purposes for which the corporation is formed.

Your Bylaws state that your organization has one membership per classification only. The voting and other rights, interests and privileges of each membership shall be equal. Membership is by invitation only. Membership is extended by current members and only to those firms non-competitive with the main activities of other current members.

If a member's primary business should change so that another classification describes it better, that member shall write a letter to the Board of Directors explaining the change. If the Board of Directors determines there is no classification overlap with another active member in good standing, the member shall be allowed to change classifications.

Should two prospective members with the same business classification apply for membership within the same week, the Board of Directors shall decide which applicant shall be accepted for membership.

Finally, Section 2 of your Bylaws indicates that "Members are expected to provide leads and other professional information to the group".

You state on page 2 of Form 1024 that your organization conducts weekly breakfast meetings. The members notify other members of new business openings, business relocations, and business closings. Members are invited to address the meeting with information about their specific business and its operations. This leads to word of mouth referrals and more business.

Your letter dated [REDACTED] states that your organization is similar to a business league in that your activities are directed at both educating participants in local economic developments as well as provide a forum for participants to offer referrals to each other.

The weekly meetings are open to the public and you periodically announce your existence in local outlets. Persons are free to contact your organization about participation and each applicant must attend at least two meetings and have a member as a sponsor.

A brochure submitted with your Form 1024 indicates that your organization is composed of business executives of [REDACTED] and [REDACTED] Counties, all non-competitors, whose sole interest is to increase the sales of goods and services of its members through the exchange of business and business information.

With regard to the brochure, your letter of [REDACTED] indicates the brochure is erroneous to the extent that it suggests your sole organizational goal is to increase business of members. You state that your meetings involve a more general economic-education focus, which does include sharing of leads designed to increase business for participants, and that your organization also focuses on general education of its membership.

In your response dated [REDACTED] you indicated that your organization is different than the organization denied exemption in Revenue Ruling 59-391 because you provide ongoing education to participants, have open public meetings, and attempt to promote the general public welfare.

Page 5 of your Form 1024 indicates that your corporate assets currently consist of cash (\$[REDACTED]).

Form 1024 indicates the income to your corporation is from gross dues and assessments of members, and investment income. Your budgets currently reflect expenses of \$[REDACTED] in [REDACTED] and \$[REDACTED] in [REDACTED] attributable to activities related to your organization's exempt purpose.

LAW

Section 501(c)(6) of the Internal Revenue Code provides for exemption of "business leagues, chambers of commerce, real estate boards, boards of trade, or professional football leagues (whether or not administering a pension fund for football players), not organized for profit and no part of the net Solano earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6) of the Income Tax Regulations reads, in part, as follows, "A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self sustaining, is not a business league."

The American Automobile Association was held not to be exempt as a business league under section 501(c)(6) of the Code in AMERICAN AUTOMOBILE ASSOCIATION v. COMMISSIONER, 19 T.C. 1146 (1953). This association was composed of individual automobile owners and affiliated auto clubs. Notwithstanding its broad purpose to improve highway traffic safety and to educate the public in traffic safety, its principal activities were determined to consist of securing benefits and performing particular services for members.

Revenue Ruling 59-391, 1959-2 CB 151 holds that an organization composed of individuals, firms, associations, and corporations, each representing a different trade, business, occupation, or profession, is not exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code where it is organized for the purpose of exchanging information on business prospects and its members have no common business interest other than a desire to increase their individual sales.

Revenue Ruling 76-409, 1976-2 C.B. 154, held that an organization that publishes and distributes to its members' customers and potential customers a directory containing members' names and addresses is constituting the performance of particular services for individual persons.

APPLICATION OF LAW

Section 501(c)(6) of the Code sets forth certain basic tests in order for an organization to be exempt under this Code section.

- a. It must be an association of persons having some common business interest, and its purpose must be to promote this common business interest.
- b. It must not be organized for profit.
- c. It must be a membership organization and have a meaningful extent of membership support.
- d. No part of its net earnings may inure to the benefit of any private shareholder or individual.
- e. Its activities must be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons.
- f. Its purpose must not be to engage in a regular business of a kind ordinarily carried on for profit, even if the business is operated on a cooperative basis or produces only sufficient income to be self-sustaining.
- g. It must be primarily engaged in activities or functions constituting the basis for exemption.
- h. Its primary activity cannot be performing particular services for members.

Your organization does not satisfy all of the basic tests required for Code section 501(c)(6). Your members do not have a common business interest. Your activities are not directed to the improvement of business conditions of one or more lines of business and there is performance of particular services for members.

Your organization is similar to the organization described in Revenue Ruling 59-391 because your organization is comprised of individuals and firms each representing a different trade, business, occupation, or profession, no one of which is in competition with another, and information is exchanged on business prospects sharing of business leads, and referrals are made to each other.

Like the organization described in the Revenue Ruling 59-391, you are organized for the mutual exchange of business information among your members; to facilitate the making of business contacts for your members; to encourage all types of trade expansion for the benefit of your members; and to encourage better business relations among your members. As in the Revenue Ruling, with respect to the main activities of a member, no member shall be in competition with another member.

Like AMERICAN AUTOMOBILE ASSOCIATION v. COMMISSIONER, 19 T.C. 1146 (1953) and Revenue Ruling 76-409 your principal activities consist of securing benefits and performing particular services for members.

Conclusion

In view of the foregoing and on the basis of the evidence presented, it is concluded that the members of your organization have no common business interest other than a mutual desire to increase their individual sales. It appears evident that your activities are not directed to the improvement of business conditions of one or more lines of business but rather to the promotion of the private interests of your members, which membership is limited by your organization's bylaws to one representative/classification from each line of business.

As a result, you do not qualify for tax exemption under section 501(c)(6) of the Code.